

Exhibit 7

Mining giant slips into a new hole

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After boardroom bust-ups and legal spats among its oligarch owners, ENRC faces an inquiry by the Fraud Office into corruption claims

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This was never going to be a run-of-the-mill stock market company. Almost half the shares were controlled by three oligarchs who made their fortunes in the chaos that followed the collapse of Soviet communism.

Its roots were in Kazakhstan, where corruption is reckoned to be on a par with that of Ethiopia, Iran and Mozambique. And its business was mining — an industry that operates in some of the most unstable and difficult parts of the world.

Yet in December 2007, Eurasian Natural Resources Corporation (ENRC) made its debut on the London Stock Exchange, valued at £6.8 billion. Within months it had joined the FTSE 100 index of the largest companies.

Four years on, ENRC has earned an unwelcome reputation. It has become involved in a legal battle after buying a mining operation in the Democratic Republic of Congo (DRC) that was allegedly illegally seized from a previous owner.

It has seen one of the most acrimonious boardroom bust-ups at a FTSE 100 company in living memory, with an ousted director famously describing the group's actions as "more Soviet than City".

The relationship between the oligarchs and ENRC has prompted repeated questions about the trio's loyalties.

And now, as The Sunday Times discloses today, the Serious Fraud Office (SFO) is seeking answers about corruption allegations at ENRC operations in Kazakhstan and Africa.

The past few months have, to put it mildly, been eventful.

Alexander Mashkevitch, Alijan Ibragimov and Patokh Chodiev, whose businesses formed the core of ENRC at flotation, hold nearly 44% of the company. In June, they ousted two directors — Sir Richard Sykes, former boss of Glaxo Smith Kline, and Ken Olisa, chairman

of Restoration Partners, the boutique investment bank.

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As a condition of the listing, the oligarchs had promised not to meddle in the running of ENRC. Olisa accused them of failing to stick to that undertaking. In a resignation letter, he said: “The original owners’ historical links with directors and senior management meant that their influence would be ever present.”

In other words, he reckoned some “independent” directors were failing to show true independence. The chairman, Johannes Sittard, had been “frequently playing the part of founders’ messenger ... rather than as leader of an independent board”, claimed Olisa.

It was he who coined one of the City’s most resonant phrases of the year, saying his dismissal was “more Soviet than City”.

Mashkevitch — who had been the subject of money laundering and forgery investigations in Belgium — made a move to install himself as chairman after he struck a deal to settle the Belgian charges without admitting guilt. He later dropped the chairmanship idea.



Alexander Mashkevitch is one of the oligarch owners of the controversial firm

Eventually, ENRC rejigged its board, claiming that it now matched good corporate governance standards. Sittard continued as chairman — although he has been criticised by some investors for being too close to the oligarchs.

A colourful story? Certainly. But now, with the SFO investigating, matters at ENRC appear far more serious.

The SFO has been under pressure for months to look into the company. In April, Eric Joyce, Labour MP for Falkirk, asked the agency to check whether ENRC complied with the Bribery Act, which came into force this year.

In parliament, Joyce accused ENRC of “entering into ropery deals with frankly shady middlemen”.

He was referring to ENRC’s purchase of the Kolwezi copper mine in the DRC. The government there had seized the operation from First Quantum Minerals and sold it for \$60m (£38m) to Dan Gertler — the mining magnate who is an associate of Joseph Kabila, the DRC president. Gertler sold on Kolwezi to ENRC for \$175m. Now, First Quantum is suing ENRC for an eye-watering \$2 billion.

It was other issues that caught the SFO’s eye, however. There are long-running — and unanswered — questions about alleged corruption at SSGPO, an iron ore subsidiary in Kazakhstan. A whistle-blower has alleged that kickbacks have been paid on supplies and that some figures in the firm — past and present — have been raking in huge sums.

In August, the SFO wrote to ENRC demanding a meeting and warning that it would consider raids on offices to seize files from directors and other executives.

A meeting was arranged at the SFO. This was no routine affair. Richard Alderman, head of the SFO, was present, flanked by two lieutenants. ENRC was represented by its counsel, Beat Ehrensberger. And there were lawyers from two City law firms. Jones Day was there to represent ENRC, but also present was Neil Gerrard of Dechert, acting on behalf of ENRC’s three-man audit committee of non-executive directors — Gerhard Ammann, Sir Paul Judge and Roderick Thomson.

Gerrard spelt out how his firm — with ENRC staff — was looking into corruption allegations at various operations around the world. He said there was no need for the SFO to raid any offices — yet.

The meeting broke up with the SFO insisting it must be kept up to date. A second meeting has been held at the SFO’s offices within the past fortnight.

As autumn closed in, Gerrard visited Kazakhstan to try to discover more about SSGPO. Back in March, he had told the audit committee that previous attempts to investigate the iron ore group had met with obstruction (see adjoining panel).

Were things any easier on his latest trip? Not much, according to one source: Gerrard found that the fresh efforts of his team were being frustrated.

The outside world knew nothing of this. For a time, it seemed boardroom disputes and concern about the oligarchs' influence might be subsiding. Then a new deal reignited the controversy.

One of the issues dogging ENRC is the relationship between its own businesses and those of Mashkevitch, Ibragimov and Chodiev.

In October, ENRC tried to take full ownership of Shubarkol, a huge Kazakh mining operation that produced 6m tonnes of coal last year.

The oligarchs control the business, and tried to sell it to ENRC three years ago. Originally the trio suggested a price valuing the whole business at \$1.5 billion.

That was rejected. But in February 2009, ENRC bought a 25% stake for \$200m and was given an option to buy the rest.

That option was renewed at the end of January this year, and on October 11, ENRC announced it would purchase the outstanding 75% for \$600m.

ENRC called a shareholders' meeting. All seemed set for an unremarkable acquisition to glide through scarcely noticed by anyone outside the world of international mining.

The oligarchs were to be barred from voting, as they were on both sides of the deal: they controlled Shubarkol and had a dominant stake in ENRC. In City parlance, it was a related transaction. Nevertheless, securing the deal seemed assured.

Then, on November 4, ENRC issued a statement. It had planned a shareholders' meeting for the following Monday to approve the deal. But, the new statement said, the vote was being shelved.

Why? The company said: "At the request of shareholders and given the current volatile market conditions, we deem it appropriate to reconsider the timing of this acquisition."

Were market conditions volatile? No, they were rather less volatile than when the proposal was announced a month earlier.

The real issue was that Kazakhmys, the mining group that holds 26% of ENRC, had told the company it would vote against the agreement. With the oligarchs prevented from voting, that meant the takeover was almost certain to fail.

What had been announced to the stock exchange wasn't untrue. But the shelving of the deal had little to do with market volatility — it was Kazakhmys's opposition that had been crucial.

Now, according to one well-placed source, the UK Listings Authority — which sets rules ensuring companies are transparent in dealing with the market — is looking into the issue: did ENRC give a full account of what had happened?

The company said this weekend that several shareholders had asked for more time to review the deal.

The situation at ENRC remains unstable. Glencore, the global commodities giant, signalled earlier this year it might buy the company. There is talk of some other restructuring to cauterise the problems caused by the oligarchs' relationship with ENRC. And, of course, the SFO has yet to finish its work.

The saga has a long way to run.

Catalogue of obstruction

Neil Gerrard, who is spearheading the investigation of corruption allegations at ENRC, is a former Metropolitan Police officer who works for Dechert, the law firm. Earlier this year, when he worked for rival DLA Piper, he spelt out the problems he expected to face. In March, Gerrard wrote to ENRC's audit committee. He had been asked to look at claims of corruption within SSGPO, an offshoot that is the largest iron ore mining and processing enterprise in Kazakhstan, employing 18,500 people.

His letter gave a taste of the problems that investigators had faced. Gerrard wrote: "Prior investigations revealed that the following obstructive behaviour appears to have been committed by SSGPO employees together with other employees of companies in Kazakhstan:

- Creation of false documentation;
- Destruction and/or failure to provide hard copy documents requested;
- Deletion or wiping of electronic data;
- Encryption of electronic data which could not be opened by decryption software;

■ Refusal of co-operation by employees.

“As a listed group parent company, ENRC ought to be able to ... exercise control over its wholly-owned subsidiaries and their employees, wherever in the world they may be. Company employees have a duty to assist, rather than obstruct, internal investigations.”

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